# FEDERAL RESERVE ACT AMENDMENT

# HEARINGS

BEFORE THE

## COMMITTEE ON BANKING AND CURRENCY

## HOUSE OF REPRESENTATIVES

SEVENTY-EIGHTH CONGRESS

FIRST SESSION

ON

# H. R. 1699

A BILL TO AMEND SECTION 12B AND SECTION 19
OF THE FEDERAL RESERVE ACT

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**REVISED**

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ECCLES AGAIN QUOTED ON MONEY CREATION

Chairman Marriner S. Eccles, the top authority of the Federal Reserve Board here in Washington, testified before the Banking and Currency Committee of the House during the hearings on the Banking Act of 1935, on private banks creating deposits and thereby becoming virtually private individual mints, as follows:

"In purchasing offerings of Government bonds, the banking system as a whole creates new money or bank deposits. When the banks buy a billion dollars of Government bonds as they are offered—and you have to consider the banking system as a whole, as a unit—the banks credit the deposit account of the Treasury with a billion dollars. They debit their Government-bond account a billion dollars, or they actually create, by a bookkeeping entry, a billion dollars."

By a sort of magic the money is created.

CONSTITUTIONAL MANDATE

The framers of the United States Constitution, in article I, section 8, very wisely said:

"Congress shall have the power to coin money and regulate the value thereof."

This provision of the Constitution is mandatory. All Members of Congress are sworn to uphold the Constitution. Why has this provision never been carried out? The answer is simple. In the early days of our national existence the people were deceived into believing that the subject of money was so mysterious and intricate that only a few of the financiers understood the subject, and therefore the great privilege of issuing and distributing money should be farmed out to them. This was done, and it has never been changed, except to give them more power and authority. The strange part of it all is that the ones who are the beneficiaries of this great privilege are not even charged with the duty of furnishing the people a sufficient circulating medium.

LEON HENDERSON'S TESTIMONY ON NO DEBTS, NO MONEY

In the hearings before the House Banking and Currency Committee on the price-control bill, the following questions were asked by me and the following answers given by Mr. Leon Henderson (pp. 981–982):

"Mr. PATMAN. * * * You stated yesterday that everybody should take advantage of this period of rising prices to pay their debts. You really don't believe everybody should pay their debts, do you? If you mean that, what would we do for money, since our money is based on debt?

"Mr. HENDERSON. I have been through that, the same as you have, and I don't believe our economy would come to a halt if people paid their debts.

"Mr. PATMAN. If everybody paid their debts?

"Mr. HENDERSON. If you are going to say that I have discounted the trade acceptances which the Federal Reserve has created by a couple of bookkeepers, that is not the connotation debt has for me.

"Mr. PATMAN. You had in mind individual debts, personal debts?

"Mr. HENDERSON. Yes.

"Mr. PATMAN. And if the policy is good for individuals, why isn't it good for corporations?

"Mr. HENDERSON. I think it is.

"Mr. PATMAN. All right. If everybody paid their debts, where would you get money to carry on business?

"Mr. HENDERSON. You would get into debt and come out again. I assume the healthy process of credit is that you do liquidate debt as you do the trade acceptances."

Mr. Speaker, Mr. Henderson's very clever reply was, in effect, that it is all right to pay the debts, but you should get right back into debt again in order for the country to have this circulating medium.

CHAIRMAN MARRINER S. ECCLES' TESTIMONY ON NO DEBTS, NO MONEY, IN HIS TESTIMONY ON THE PRICE-CONTROL BILL BEFORE THE BANKING AND CURRENCY COMMITTEE

Chairman Eccles, of the Federal Reserve Board, testified as follows, page 1338 of the hearings, September 30, 1941:

"Mr. PATMAN. * * * You made the statement that people should get out of debt instead of spending their money. You recall that statement, I presume?

"Mr. ECCLES. That was in connection with installment credit.

"Mr. PATMAN. Do you believe that people should pay their debts generally when they can?

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"Mr. ECCLES. I think that depends a good deal upon the individual; but, of course, if there were no debt in our money system——

"Mr. PATMAN. That is the point I wanted to ask you about.

"Mr. ECCLES. There wouldn't be any money.

"Mr. PATMAN. Suppose everybody paid their debts, would we have any money to do business on?

"Mr. ECCLES. That is correct.

"Mr. PATMAN. In other words, our system is based entirely on debt."

Mr. Speaker, there can be no dispute about the statement that our system is based entirely upon debt, and if a person and corporation paid their debts we would not have sufficient money to do business on.

If we were to change that system the Government would pay its own money into circulation, and the people would be saved billions of dollars a year in interest.

The Federal Reserve Banking System is privately owned. Not $1 of the stock is owned by the Government or by the people; it is owned by private banking corporations. It is a corporation owned by corporations. Many people believe that the Federal Reserve Banking System is owned by the Government because it is named Federal, but of course this is not true.

### CREATE MONEY, BUY BONDS, AND COLLECT INTEREST

When the Honorable Marriner S. Eccles, Chairman of the Federal Reserve Board, was before the Banking and Currency Committee of the House, of which I am a member, on Tuesday, September 30, 1941, I interrogated him about how he obtained for the 12 Federal Reserve banks the $2,000,000,000 in Government bonds, which the System is now holding and charging the Government interest thereon. The questions and answers appear in the printed testimony, volume 2, page 1342, and is as follows:

"Mr. PATMAN. * * * How did you get the money to buy those $2,000,000,000 of Government securities?

"Mr. ECCLES. We created it.

"Mr. PATMAN. Out of what?

"Mr. ECCLES. Out of the right to issue credit, money.

"Mr. PATMAN. And there is nothing behind it, is there, except the Government's credit?

"Mr. ECCLES. We have the Government bonds.

"Mr. PATMAN. That's right; the Government's credit."

Mr. Speaker, the Government is now paying between forty and fifty million dollars a year to the Federal Reserve Banking System as interest on these bonds. The expenses, dividends, and profits of the System are paid in that way. It would be just as reasonable for each department of our Government to be allowed to purchase enough Government bonds to pay their expenses the same way. It would be just as reasonable for the Government to set aside enough interest-bearing bonds to each Federal employee to pay the Federal employee interest sufficient to pay his salary as it is for the Federal Reserve Banking System to get their expenses paid in that way.

Under our present system the Federal Reserve banks can purchase twenty-five or fifty billion, a hundred billion, or an unlimited amount of Government bonds the same way they purchased and then held the $2,000,000,000. The System now owns about $6,000,000,000 in United States securities acquired the same way. Officials of the Federal Reserve System are paid salaries up to $50,000 a year.

Commercial banks that obtain a large part of their earnings from United States bonds bought with created money paid their officials up to $175,000 a year.

(Article from the Congressional Record submitted by Mr. Patman follows:)

### WAR DEBT CAN BE PAID IN 40 YEARS WITHOUT UNBEARABLE BURDEN ON TAXPAYERS BY CONGRESS USING THE GOVERNMENT'S CREDIT AND IDLE GOLD INSTEAD OF CONTINUING TO FARM IT OUT TO SPECIAL PRIVATE CORPORATE INTERESTS

"[H. R. 1, 78th Cong., 1st sess., Jan. 6, 1943]

"A BILL Providing for the issuance of nonnegotiable United States bonds to Federal Reserve banks and terminating the authority of the Treasury to issue other interest-bearing obligations of the United States to commercial banks, and for other purposes



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